

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
CLERK**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KNOX COUNTY CLERK

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Knox County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$165,442 from the prior year, resulting in excess fees of \$321,040 as of December 31, 2007. Revenues increased by \$592,255 from the prior year and expenditures increased by \$426,813.

Debt Obligation:

Total debt principal as of December 31, 2007, was \$5,453. Future collections of \$6,255 are needed over the next two years to pay all debt principal and interest.

Report Comments:

- 2007-1 The Information Generated By The County Clerk's Software Did Not Provide The Correct Information For The Fourth Quarter Financial Report
- 2007-2 The County Clerk Should Issue Receipts For All Vehicle Inspections Performed On Behalf Of The Sheriff

Deposits:

The County Clerk's deposits as of December 28, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$37,108

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable Mike Corey, Knox County Clerk
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Knox County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2009 on our consideration of the Knox County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable Mike Corey, Knox County Clerk
Members of the Knox County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 The Information Generated By The County Clerk's Software Did Not Provide The Correct Information For The Fourth Quarter Financial Report
- 2007-2 The County Clerk Should Issue Receipts For All Vehicle Inspections Performed On Behalf Of The Sheriff

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Knox County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 5, 2009

KNOX COUNTY
 MIKE COREY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services \$ 13,897

Fiscal Court 8,238

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 1,177,862

Usage Tax 4,286,463

Tangible Personal Property Tax 1,910,637

Other-

Fish and Game Licenses 3,896

Marriage Licenses 10,117

Occupational Licenses 496

Tax Liens 21,472

Deed Transfer Tax 60,624

Delinquent Tax 337,751 7,809,318

Fees Collected for Services:

Recordings-

Deeds, Easements and Contracts 17,450

Real Estate Mortgages 36,816

Chattel Mortgages and Financing Statements 105,970

Powers of Attorney 2,085

Bail Bonds 2,640

Fixture Filing 3,519

Leases 4,512

Liens and Lis Pendens 4,654

Releases 16,866

Wills and Estate Settlements 745

Affordable Housing Trust Fund 31,584

All Other Recordings 10,591

Charges for Other Services-

Candidate Filing Fees 100

Copywork 18,337

Other:

Postage 856

Refunds 22,876

Miscellaneous 3,002 282,603

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY
 MIKE COREY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Revenues (Continued)

Interest Earned	\$ 7,458
Total Revenues	8,121,514

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 787,710

Usage Tax 4,157,575

Tangible Personal Property Tax 771,725

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,896

Delinquent Tax 50,736

Legal Process Tax 40,953

Affordable Housing Trust Fund 23,616 \$ 5,836,211

Payments to Fiscal Court:

Tangible Personal Property Tax 174,353

Delinquent Tax 43,388

Deed Transfer Tax 57,592

Occupational Licenses 335 275,668

Payments to Other Districts:

Tangible Personal Property Tax 888,369

Delinquent Tax 171,889 1,060,258

Payments to Sheriff 5,895

Payments to County Attorney 40,090

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 271,140

Contract Labor 257

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY
 MIKE COREY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued):

Employee Benefits-

Employer's Share Social Security and Retirement	\$ 76,241
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Employer's Paid Health Insurance	38,496
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Other Payroll Expenditures	360
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Contracted Services-

Office Equipment	7,754
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Printing and Binding	26,119
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Accounting Services	4,200
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Materials and Supplies-

Office Supplies	18,766
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Other Charges-

Dues	1,000
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Postage	9,992
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Miscellaneous	7,530
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Insurance and Bonds	646
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Refunds	<u>26,332</u>	\$ 488,833
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Debt Service:

Lease Purchases and Maintenance	<u>5,255</u>
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Total Expenditures	\$ 7,712,210
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Net Revenues	409,304
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Less: Statutory Maximum	<u>81,277</u>
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Excess Fees	328,027
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Less: Expense Allowance	3,600
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Training Incentive Benefit	<u>3,387</u>	6,987
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Excess Fees Due County for 2007	321,040
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Payments to Fiscal Court - March 14, 2008	<u>321,040</u>
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Balance Due Fiscal Court	<u>\$ 0</u>
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The accompanying notes are an integral part of this financial statement.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Knox County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Knox County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 28, 2007 the County Clerk's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$37,108

KNOX COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2007
 (Continued)

Note 4. Leases

- A. The office of the County Clerk was committed to a lease agreement with Xerox for a copy machine. The agreement requires a monthly payment of \$137 for sixty (60) months to be completed on June 31, 2009. The principal balance of the agreement was \$2,304 as of December 31, 2007.
- B. The office of the County Clerk was committed to a lease agreement with Pitney Bowes for a postage machine. The agreement requires a monthly payment of \$160 for fifty-one (51) months to be completed on December 31, 2009. The principal balance of the agreement was \$3,149 as of December 31, 2007.

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2007</u>
Copy Machine	\$ 137	60 Months	06-31-2009	\$ 2,304
Postage Machine	\$ 160	51 Months	12-31-2009	\$ 3,149

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable Mike Corey, Knox County Clerk
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Knox County Clerk for the year ended December 31, 2007, and have issued our report thereon dated January 5, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knox County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

2007-1 The Information Generated By The County Clerk's Software Did Not Provide The
Correct Information For The Fourth Quarter Financial Report



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

2007-2 The County Clerk Should Issue Receipts For All Vehicle Inspections Performed On
Behalf Of The Sheriff

The Knox County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Knox County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 5, 2009

COMMENTS AND RECOMMENDATIONS

KNOX COUNTY
MIKE COREY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFIGANT DEFICIENCY:

2007-1 The Information Generated By The County Clerk's Software Did Not Provide The Correct Information For The Fourth Quarter Financial Report

The quarterly financial report submitted to the Department for Local Government (DLG) and to Fiscal Court was not accurate. The auditors found that the line item totals for Motor Vehicle Fees per the quarter report were overstated by \$11,972 for receipts and \$22,526 for disbursements. The auditor found that the totals per the quarter report did agree to the totals per ledgers before refunds or other adjustments were made. Also the fourth quarter financial report submitted to the Department for Local Government and Fiscal Court did not include receivables and liabilities in the line item totals. We recommend the County Clerk provide additional training or upgrade the computer system to make sure that the reports submitted accurately reflect the receipts and disbursements of the clerk's office

County Clerk's Response: Report was ran as of 12-31 and did not include all transactions due to bookkeeping error, will correct in the future.

STATE LAWS AND REGULATIONS:

2007-2 The County Clerk Should Issue Receipts For All Vehicle Inspections Performed On Behalf Of The Sheriff

During testing for compliance with KRS 186A.115(1)(c), the official could not provide evidence that the additional ten-dollar (\$10) fee was collected for off-site vehicle inspections. The County Clerk does not issue a receipt, except the inspection form, for each vehicle inspection performed on behalf of the Sheriff. KRS 64.840(1)(2) states "all county officials shall, upon the receipt of any fine, forfeiture, tax or fee, prepare a receipt that meets the specifications of the State Local Finance Officer" and "one (1) copy shall be retained by the official for his own records". We recommend that the Clerk comply with KRS 64.840(1)(2) by issuing a receipt for all vehicle inspections. We further recommend that the Clerk maintain evidence that his office is charging the additional ten-dollar (\$10) fee for off-site vehicle inspections, as stated in KRS 186A.115(1)(c), by retaining copies of the receipts issued for vehicle inspections performed on behalf of the Sheriff.

County Clerk's Response: The official did not respond.

